

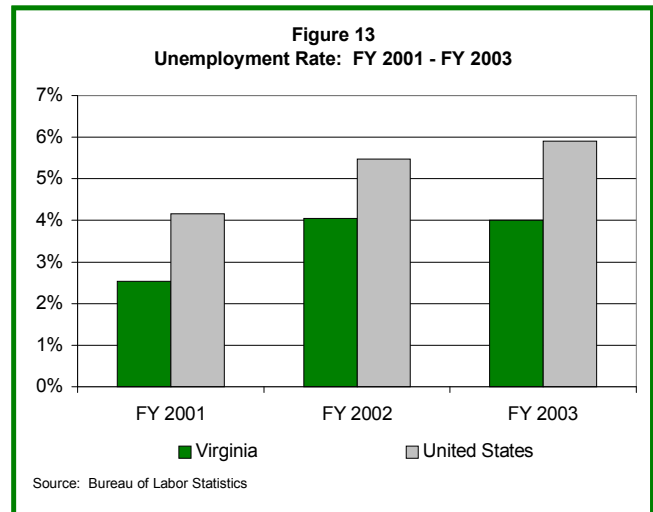
Virginia Economic Highlights

Introduction

Economists at Virginia Commonwealth University's Center for Urban Development prepared this economic highlight section. FY 2003 can be thought of as something of a transitional fiscal year for the Virginia economy. Emerging from FY 2002, which included the September 11 terrorist attacks and the end to a brief recession, the Commonwealth's economy began to grow in FY 2003. Several economic indicators including wages and salaries, personal income, new privately owned housing units authorized, and retail sales finished the fiscal year with positive gains. While employment finished the fiscal year slightly lower, unemployment remained at the same level as FY 2002.

Unemployment

Figure 13 shows unemployment at 4.0 percent for Virginia in FY 2003. In comparison, the United States had an unemployment rate nearly two percentage points higher at 5.9 percent. Over the past three fiscal years, Virginia's unemployment rate has been on average 1.6 percent less than the Nation's. The Charlottesville Metropolitan Statistical Area (MSA) and the Roanoke MSA had unemployment rates lower than the State's at 2.6 percent and 3.5 percent, respectively. The Norfolk-Virginia Beach-Newport News MSA (4.2 percent) and the Richmond-Petersburg MSA (4.1 percent) had essentially the same unemployment rate as Virginia. The Danville MSA (7.8 percent) and the Lynchburg MSA (5.0 percent) had higher unemployment rates than the Commonwealth.



Employment

Virginia's total nonfarm employment, 3,495,725 persons in FY 2003, fell for the second straight fiscal year (**Figure 14**). The slight decline, about 0.1 percent, represents a loss of approximately 3,658 jobs. The information sector had the biggest percentage decline, shedding 9.1 percent of its labor force (10,200 jobs). Manufacturing employment continued its downward trend with a 4.0 percent decline or 13,000 jobs. Over the past ten fiscal years, the Commonwealth's manufacturing industry has lost over 55,000 jobs, an average of 5,500 jobs per fiscal year. In FY 1993, Virginia's manufacturing employment comprised 12.9 percent of total nonfarm employment, while in FY 2003 that proportion fell to just 9.0 percent. Other industry sectors that had job losses are natural resources and mining (-6.9 percent or 800 jobs),

Figure 14
Nonfarm Employment, FY 2001 - 2003

	FY 2003 Level (Thousands)	FY 2002-2003 Unit Change (Thousands)	Virginia FY 2001 % Change	Virginia FY 2002 % Change	Virginia FY 2003 % Change	United States FY 2003 % Change
Natural Resources and Mining	10.4	(0.8)	0.8	(2.5)	(6.9)	(4.4)
Construction	209.6	(6.0)	5.4	0.4	(2.8)	(0.6)
Manufacturing	315.4	(13.0)	(3.3)	(7.4)	(4.0)	(4.7)
Trade, Transportation, and Utilities	636.8	(2.7)	1.0	(1.7)	(0.4)	(1.2)
Information	101.8	(10.2)	9.3	(8.4)	(9.1)	(4.7)
Financial Activities	182.6	1.9	2.6	0.2	1.1	0.4
Professional and Business Services	545.4	(6.7)	3.0	(3.0)	(1.2)	(0.9)
Education and Health Services	366.9	13.0	3.5	4.2	3.7	2.8
Leisure and Hospitality	309.5	8.1	2.8	0.4	2.7	0.3
Other Services	178.4	5.2	3.8	5.3	3.0	0.1
Government	638.9	7.4	1.5	0.6	1.2	0.8
Federal	147.6	1.7	(1.5)	(2.7)	1.2	0.4
State	145.1	(0.5)	1.8	(0.5)	(0.3)	(0.2)
Local	346.2	6.2	2.7	2.6	1.8	1.2
Total Nonfarm Employment	3,495.7	(3.7)	2.1	(1.0)	(0.1)	(0.6)

Source: Bureau of Labor Statistics

construction (-2.8 percent or 6,000 jobs), trade, transportation and utilities (-0.4 percent or 2,700 jobs) and professional and business services (-1.2 percent or 6,700 jobs). Balancing the declines are the sectors that fared quite well during FY 2003. Gains in financial activities (1.1 percent or 1,900 jobs), education and health services (3.7 percent or

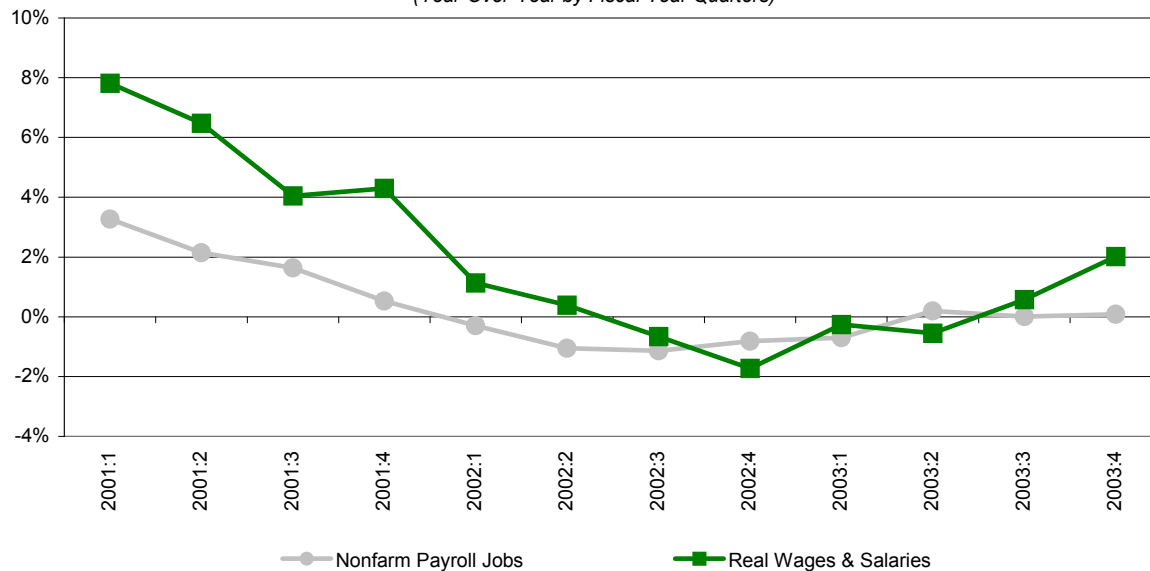
13,000 jobs), leisure and hospitality (2.7 percent or 8,100 jobs), other services (3.0 percent or 5,200 jobs) and total government (1.2 percent or 7,400 jobs) helped Virginia's total nonfarm employment in FY 2003 to remain essentially flat relative to FY 2002.

Figure 15
Nonfarm Employment: Metropolitan and Non-metropolitan Areas

	FY 2003	FY 2002-2003 Unit Change	FY 2002-2003 % Change
Metropolitan Statistical Areas	2,891,467	(6,683)	(0.2)
Bristol	40,742	475	1.2
Charlottesville	87,658	1,183	1.4
Danville	45,817	525	1.2
Lynchburg	99,850	(1,433)	(1.4)
Norfolk-Virginia Beach-Newport News	723,558	2,825	0.4
Northern Virginia	1,181,233	(4,083)	(0.3)
Richmond-Petersburg	568,375	(3,717)	(0.6)
Roanoke	144,233	(2,458)	(1.7)
Non-Metropolitan Statistical Areas	604,258	3,025	0.5

Source: Bureau of Labor Statistics

Figure 16
Growth in Jobs and Real Wages and Salaries
(Year-Over-Year by Fiscal Year Quarters)



Source: Bureau of Labor Statistics and Bureau of Economic Analysis

Breaking recent trends in the Commonwealth, **Figure 15** shows employment in the non-MSAs grew as employment in the MSAs declined. Non-MSAs added 3,025 jobs, a 0.5 percent growth rate, while MSAs lost 6,683 jobs, a decline of 0.2 percent. The MSAs that had employment losses during FY 2003 are Lynchburg (-1.4 percent or 1,433 jobs), Northern Virginia (-0.3 percent or 4,083 jobs), Richmond-Petersburg (-0.6 percent or 3,717 jobs) and Roanoke (-1.68 percent or 2,458 jobs). The Norfolk-Virginia Beach-Newport News MSA posted a gain in employment of 2,825 or 0.4 percent in FY 2003, followed by Charlottesville at 1,183 jobs or 1.4 percent, Danville at 525 jobs or 1.2 percent and Bristol at 475 jobs or 1.2 percent.

Wages and Salaries

Continuing from the second half of FY 2002, the year-to-year quarterly growth rates in real wages and salaries fell in the first two quarters of FY 2003 (**Figure 16**). The four straight quarters of negative growth over the previous fiscal year's quarters were offset by modest gains in the second half of FY 2003. Growth rates of 0.6 percent and an estimated 2.0 percent (fourth quarter FY 2003 has been forecasted by the Center) in the third and fourth quarters, respectively, helped the real wage and salary year-to-year quarterly growth rate average 0.4 percent in FY 2003 up from -0.6 percent in FY 2002.

Nonfarm year-to-year quarterly growth rates averaged a decline of -0.1 percent in FY 2003 bettering the FY 2002 average of -0.9 percent. Virginia's employment growth

compiled five straight quarters of decline that ended in the first quarter of FY 2003. The second, third and fourth quarter growth rates were all positive indicating that employment, an indicator which lags the business cycle, likely has reached its' low point following the most recent recession which ended in November 2001.

In **Figure 17**, wages and salaries per job have been calculated by major industry group for both Virginia and the United States. Virginia's average pay per job in FY 2003 was \$40,032, over \$1,700 more than the national average of \$38,318. The sectors for which Virginia's wages and salaries per job were higher in FY 2003 are: information (+\$10,616), professional and business services (+\$7,474) and government (+\$10,234). The sectors for which Virginia's wages and salaries per job were lower in FY 2003 are: natural resources and mining (-\$17,408), construction (-\$3,038), manufacturing (-\$4,971), trade, transportation, and utilities (-\$2,087), financial activities (-\$5,742), education and health services (-\$1,090), leisure and hospitality (-\$2,220) and other services (-\$449).

Education and health services (4.8 percent) and government (4.3 percent) recorded the largest percentage increases in wages and salaries per job in FY 2003. Combined, the two sectors added 20,400 jobs. The increased demand for labor in these sectors contributed to the higher compensation. The information sector, which reduced its workforce by 10,200 jobs, recorded the largest percentage decrease (-3.3 percent) in wages and salaries per job.

Figure 17
Wages and Salaries Per Job*

	Virginia Pay/Job FY 2003	United States Pay/Job FY 2003	Virginia Minus United States	Virginia FY 2002-2003 % Change	United States FY 2002-2003 % Change
Natural Resources and Mining	\$ 36,837	\$ 54,245	\$ (17,408)	-0.5	1.7
Construction	38,161	41,199	(3,038)	1.5	0.6
Manufacturing	39,607	44,578	(4,971)	0.3	1.8
Trade, Transportation, and Utilities	31,294	33,382	(2,087)	1.1	1.6
Information	67,002	56,386	10,616	-3.3	-0.5
Financial Activities	51,346	57,088	(5,742)	2.8	0.3
Professional and Business Services	53,484	46,010	7,474	3.1	0.5
Education and Health Services	33,829	34,919	(1,090)	4.8	4.2
Leisure and Hospitality	14,470	16,690	(2,220)	1.0	3.4
Other Services	25,827	26,276	(449)	-1.0	1.2
Government	50,180	39,945	10,234	4.3	3.8
Total Nonfarm Employment	40,032	38,318	1,714	1.9	1.8

* FY 2003 annual rates estimated using the first three quarters of FY 2003

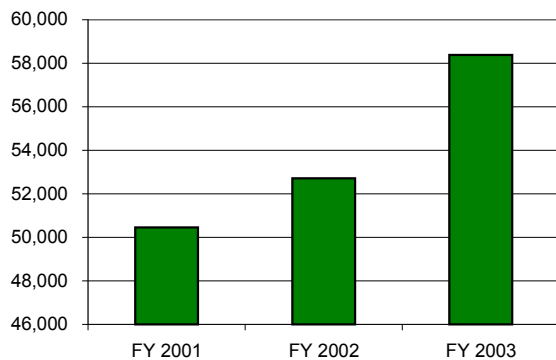
Source: Bureau of Labor Statistics

Figure 18
Personal Income and Wage and Salary Disbursements

	FY03	Annual Growth Rates		
		FY 01	FY 02	FY 03
Virginia Personal Income (in Millions of \$)	\$243,078	7.8%	2.5%	3.5%
Virginia Wages and Salaries (in Millions of \$)	\$140,874	8.2%	1.1%	2.3%
United States Personal Income		6.4%	2.0%	3.2%
United States Wages and Salaries		5.9%	0.4%	1.6%
Inflation, PCE Chain-Type Index		2.5%	1.3%	1.9%
Virginia Real Personal Income		5.2%	1.1%	1.6%
Virginia Real Wages and Salaries		5.6%	-0.2%	0.4%
United States Real Personal Income		3.9%	0.6%	1.3%
United States Real Wages and Salaries		3.4%	-0.9%	-0.3%

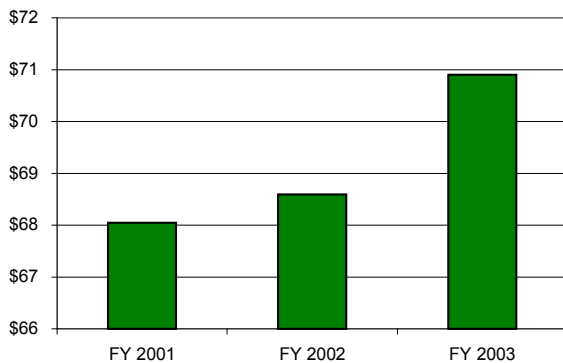
Sources: Bureau of Labor Statistics and Bureau of Economic Analysis

Figure 19
Virginia New Privately Owned Housing Units Authorized



Source: Bureau of the Census

Figure 20
Virginia Retail Sales
(Billions of Dollars)



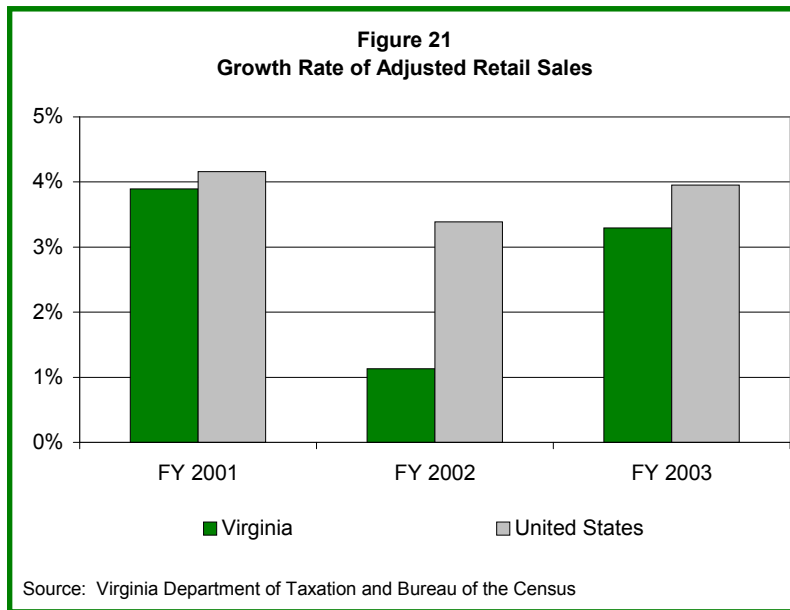
Source: Virginia Department of Taxation

Personal Income

Virginia's personal income is estimated to have reached \$243 billion in FY 2003, (fourth quarter has been forecasted by the Center) a 3.5 percent increase over FY 2002 (**Figure 18**). Total wages and salaries comprised about 58 percent of personal income and increased 2.3 percent over FY 2002. For the last three fiscal years, Virginia's personal income and wages and salaries grew at a faster pace than the United States. Further, adjusting for inflation, Virginia's growth in real personal income (1.6 percent) and real wages and salaries (0.4 percent) outpaced the Nation's growth of 1.3 percent and -0.3 percent, respectively.

New Privately Owned Housing Units Authorized

In FY 2003, new privately owned housing units authorized in Virginia jumped 10.7 percent to reach 58,379 (**Figure 19**). Historically low interest rates and a higher risk in the equity markets have spurred new home building over the past two fiscal years. As interest rates increase and returns in the stock markets continue to rise, we would expect new housing units authorized to wane over the next fiscal year. The 2.8 percent reduction in construction payrolls in FY 2003 provides some evidence that a reduced growth rate in new housing construction might be eminent.



Retail Sales

Retail sales amounted to \$70.9 billion in FY 2003, a 3.4 percent increase over FY 2002 (**Figure 20**). One category that added to this increase, was lodging sales. The September 11, 2001 attacks dampened lodging sales as fewer people traveled in FY 2002. While lodging sales rebounded in FY 2003, increasing by 5.6 percent or \$117 million over FY 2002, they have yet to reach pre-terrorist attack levels.

Figure 21 depicts growth rates in adjusted retail sales over the past three fiscal years for Virginia and the United States. To make the two retail sales series comparable, lodging sales were removed from Virginia retail sales, while gasoline and automobile sales were removed from the United States retail sales. Virginia adjusted retail sales grew by 3.3 percent and the United States adjusted retail sales grew by 4.0 percent in FY 2003. The growth rate of adjusted Virginia retail sales tripled from 1.1 percent in FY 2002.

Conclusion

It appears that Virginia's economy has transitioned from recessionary conditions in FY 2002 to an economy showing positive signs of growth in FY 2003. Increases in wages, personal income and subsequent increases in retail sales will continue to push the Commonwealth's economy on its expansionary path. In all likelihood, employment will begin to post positive gains. Virginia will continue to reap the benefits of a diverse, well-educated and talented workforce and its economy should be among the strongest in the United States in FY 2004.

